

Message Text

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SUBJ: ELEMENTS OF ADMINISTRATION TAX PROPOSAL WHICH WILL HAVE
INTERNATIONAL IMPACT - THE BAHAMAS

REF: (A) STATE 16807 (B) NASSAU 1169

SINCE OUR TRANSMISSION OF REF (B), WE HAVE RECEIVED
TEXT OF EDITORIAL APPEARING IN FREEPORT NEWS JANUARY 16,
1978 WHICH VIVIDLY HIGHLIGHTS THE BAHAMAS' CONCERN WITH
THE FOREIGN CONVENTIONS PROVISIONS OF THE TAX REFORM ACT
OF 1976 AND HOPED FOR, BUT NOT FORTHCOMING
REF (A), ADMINISTRATION CHANGES IN THAT ACT: TEXT
FOLLOWS QUOTE CONVENTION LAW CHANGES - CHANGES IN THE U.S.
TAX LAW GOVERNING OVERSEAS CONVENTIONS, WHICH HAS HAD A
SERIOUS IMPACT IN THE BAHAMAS, ARE UNDER CONSIDERATION IN
THE WHITE HOUSE AND CONGRESS, AFTER STRONG, HIGH-LEVEL
PRESSURE FROM CANADA AND CARIBBEAN AND LATIN AMERICAN
COUNTRIES. THE HOUSE WAYS AND MEANS COMMITTEE IS
PRESENTLY STUDYING THE EFFECTS OF THE 1976 LEGISLATION.
CARTER ADMINISTRATION SPOKESMEN HAVE SAID THEY ARE RECEPTIVE
TO A CHANGE, BUT THEY ARE NOT GIVING IT A HIGH
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PRIORITY. THEY EMPHASIZE THAT A CHANGE IN THE
REGULATIONS IN CONVENTIONS US ONLY A POSSIBILITY,
NOT A FIRM PROPOSAL, AND THAT IT IS ONLY ONE OF
MANY CHANGES IN THE 1976 TAX LAW UNDER CONSIDERATION.
IT IS ALSO CLEAR THAT THE CARTER ADMINISTRATION WOULD
PREFER A TAX CUT THIS YEAR TO MAJOR TAX REFORM.
CONGRESSMEN SHY AWAY FROM THE ISSUE FEARING CONSTI-

TUENTS' REACTION TO "TAX BREAKS" FOR BIG BUSINESS AND FOREIGN COUNTRIES. THE MOST LIKELY CHANGE IS ONE WHICH WOULD EXEMPT CANADA, BERMUDA, CARIBBEAN* AND LATIN AMERICAN COUNTRIES FROM THE LAW, WHICH LIMITS THE NUMBER OF DEDUCTABLE OVERSEAS CONVENTIONS A U.S. COMPANY, GROUP OR INDIVIDUAL CAN MAKE, AND PLACES RESTRICTIONS ON THE PERMISSIBLE DEDUCTIONS AND INCREASES THE PAPER-WORK REQUIRED FOR THOSE DEDUCTIONS. THE CHANGES HAVE PLACED U.S. RESORTS AT AN ADVANTAGE FOR THE RESTRICTIONS DO NOT APPLY TO CONVENTIONS IN THE U.S. BUT MANY U.S. RESORTS OPPOSE THE LAW, FEARING LONG-TERM RETALIATION. PRESSURE FOR CHANGES HAVE COME FROM HEADS OF STATES OF SEVERAL COUNTRIES, IN ADDITION TO TRADE AND OTHER GROUPS. THE CANADIAN PRIME MINISTER AND THE MEXICAN PRESIDENT HAVE BOTH PUBLICALLY APPEALED TO PRESIDENT CARTER DURING WASHINGTON VISITS FOR RELIEF, AND PRIME MINISTER PINDLING, WE UNDERSTAND, RAISED THE ISSUE IN PRIVATE CONVERSATIONS WITH THE PRESIDENT DURING HIS SEPTEMBER WASHINGTON VISIT. IT WAS ALSO BROUGHT UP DURING LAST MONTH'S VISIT OF STATE DEPARTMENT OFFICIALS TO NASSAU. IN AN EARLIER PROTEST, THE BAHAMAS GOVERNMENT NOTED THE LAW HAD HAD 'DIRECT EFFECTS ON TOURISM IN CONVENTION CANCELLATIONS AND THE RESULTING CUTBACK IN EXPECTED HOTEL REVENUES.' ALTHOUGH ONLY ABOUT 3.5 PERCENT OF VISITORS TO THE BAHAMAS RESULT FROM CONVENTION BUSINESS, CONVENTIONEERS LIMITED OFFICIAL USE

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OFTEN SPEND MORE THAN OTHERS, AND MANY HOTELS ARE HEAVILY DEPENDENT ON THE BUSINESS. NASSAU AND PARADISE ISLAND HOTELS, FOR EXAMPLE, ARE ABOUT 40 PERCENT DEPENDENT ON SUCH BOOKINGS OVERALL. INDIVIDUAL HOTELS ARE UP TO 60 PERCENT RELIANT ON CONVENTION BUSINESS. THEY HAVE BEEN 'DRASTICALLY AFFECTED' RON MUZII, EXECUTIVE DIRECTOR OF THE NASSAU-PAJADISE ISLAND PROMOTION BOARD TOLD US. MOST HOTELS WE CONTACTED REPORTED SOME 1977 CONVENTION CANCELLATIONS, AND THE LOSS HAS SHOWED UP IN TOURISM FIGURES, WHICH SHOW A DECLINE FOR THE SPRING AND SUMMER, WHILE THE REST OF THE YEAR HELD FIRM OR EVEN SHOWED SOME SLIGHT INCREASES OVER 1976. SPRING, SUMMER AND THE EARLY FALL - EXCEPT JULY AND AUGUST - ARE PEAK CONVENTION MONTHS. MORE IMPORTANT THAN THE LOSS OF 1977 BUSINESS, MOST HOTEL EXECUTIVES TOLD US, WAS THE LONG-TERM EFFECT, AS LARGER GROUPS, PLANNING CONVENTIONS FOR 1979 AND 1980 CANCEL NOW, RATHER THAN FACE LAST MINUTE DECISIONS AND PROBLEMS. SIMILARLY, GROUPS PREPARING FOR CONVENTIONS FURTHER AHEAD OPT FOR SAFETY AND STEER AWAY FROM FOREIGN SITES. 'WE HAVE MET A STONE-WALL FOR FUTURE BOOKINGS,'

MUZII SAID. 'THEY JUST WILL NOT COME.' FREEPORT HAS

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ALSO FELT THE IMPACT OF THE NEW REGULATIONS, WITH A
'FAIRLY SUBSTANTIAL' DROP IN CONVENTION BOOKINGS. ONE
EXECUTIVE, ON WHOSE FREEPORT HOTEL THE LAW HAD HAD A
'TREMENDOUS' IMPACT, THOUGHT THE SITUATION WOULD BE
SELF-CORRECTING AS CONVENTION ORGANIZERS REALIZE THE
IRS 'DOES NOT KNOW WHAT IT REALLY WANTS,' AND THAT THE
REGULATIONS AND PAPERWORK 'ARE NOT REALLY ALL THAT MUCH
OF A PROBLEM.' OTHERS TOLD US THE LOSS IN CONVENTION
BUSINESS HAD BEEN COMPENSATED FOR BY INCREASES IN
INCENTIVE BUSINESS AND OTHER GROUP BUSINESS. 'OUR
BOTTOM LINE REMAINS THE SAME,' ONE SAID. BUT JACK
GELINAS, SALES MARKETING DIRECTOR FOR RESORTS INTER-
NATIONAL, OWNERS OF HOTELS ON PARADISE ISLAND SPOKE FOR
MOST WHEN HE SAID THE LAW WOULD HAVE 'AN INCREASINGLY
SERIOUS IMPACT IF NOT CHANGED,' ADDING THAT CONVENTION
ENQUIRIES HAD 'GJEATLY DIMINISHED/' RESORTS WAS
PARTICUWARLY BADLY HIT AS IT OPENED A NEW
CONVENTION COMPLEX AT THE BRITANNIA BEACH
HOTEL THE SAME TIME THE REGULATIONS CAME INTO
FORCE. GELINAS SAID OTHER USES, INCLUDING 'DOMESTIC
USES,' HADSBEEN FOUND FOR THE COMPLEX, BUT THESE ARE
NOT SO PROFITABLE AS THE CONVENTION BUSINESS FOR WHICH
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IT WAS DESIGNED. THE REGULATIONS ARE ALSO PARTLY RESPONSIBLE FOR DELAYS IN THE PLANS FOR THE PROPOSED GOVERNMENT-OWNED CABLE BEACH CASINO AND CONVENTION COMPLEX. 'IT WILL BE THE BIGGEST THING FOR THE BAHAMAS IF THE LAW CHANGES*' SAID MUZIW, WHO HAS BEEN COORDINATING LOBBYING ACTIVITIES FOR MANY NASSAU HOTELS. HE SAID HE GAVE THE EXEMPTION PROPOSAL A 50-50 CHANCE. SEPARATELY, U.S. TREASURY LAWYERS, INTERPRETING THE REGULATIONS, ARE ALLOWING COMPANIES TO TAKE DEDUCTIONS FOR EMPLOYEES, AND WANT TO FORCE INDIVIDUAL EMPLOYEES TO COUNT ANY EXCESS DEDUCTED AS THEIR TAXABLE INCOME. THE INTERPRETATION SEEMS TO DUFFER FROM CONGRESS' INTENTIONS, AND MANY LAWYERS THINK, FROM THE WORDING OF THE ACT. BUT TREASURY LAWYERS BELIEVE THEIR INTERPRETATION WILL BE EASIER TO ENFORCE, AS COMPANIES MAY BE UNAWARE AN EMPLOYEE HAS SPENT BEYOND THE LIMIT. END QUOTE. SCHWARTZ

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